

Message Text

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PAGE 01 LISBON 04604 240955Z

20

ACTION AF-07

INFO OCT-01 EUR-08 ISO-00 AID-05 CIAE-00 COME-00 EB-04

FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 H-01 L-01 DODE-00

PA-01 USIA-06 PRS-01 /053 W
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FM AMEMBASSY LISBON

TO SECSTATE WASHDC 839

INFO AMCONSUL OPORTO

AMCONSUL PONTA DELGADA

AMCONSUL LUANDA

AMCONSUL LOURENCO MARQUES

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E.O. 11652: N/A

TAGS: EFIN, PO

SUBJ: GOVERNMENT ASSUMES MANAGEMENT OF MAJOR BANK

SUMMARY: GOP HAS TAKEN OVER MANAGEMENT OF BANCO INTER-CONTINENTAL PORTUGUES UNDER AUTHORITY OF NEW DECREE-LAW. ACTION WAS LABELLED AS TEMPORARY AND AS NOT IMPLYING NATIONALIZATION. THE BANK AND ITS ASSOCIATED INDUSTRIAL GROUP ARE TO BE GIVEN NECESSARY GOVERNMENT SUPPORT, AND ALL BANK OBLIGATIONS AND DEPOSITS ARE GUARANTEED. GOVERNMENT TAKEOVER WAS MADE NECESSARY WHEN BANK'S OVEREXPOSURE IN ILLIQUID LONG-TERM INVESTMENTS, PARTICULARLY STOCKS, LEFT IT WITH INSUFFICIENT CASH TO MEET OBLIGATIONS. BANK OF PORTUGAL OFFICIAL EMPHASIZED THAT OTHER BANKS ARE NOT IN SIMILAR DIFFICULTY. END SUMMARY.

1. ON OCTOBER 14 GOP ANNOUNCED IT HAD SUSPENDED THE MANAGEMENT OF BANCO INTERCONTINENTAL PORTUGUES (BIP), AND APPOINTED TWO NEW STATE ADMINISTRATORS. UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LISBON 04604 240955Z

THE ACTION, TAKEN THE PREVIOUS SATURDAY, WAS AUTHORIZED

BY A DECREE-LAW DATED THE SAME DAY, WHICH INTRODUCED CERTAIN ALTERNATIONS IN THE GOVERNMENT'S ROLE IN SUPERINTENDING, COORDINATION, AND CONTROL OF ACTIVITIES OF CREDIT INSTITUTIONS. THE GOVERNMENT EMPHASIZED, HOWEVER, THAT ITS INTERVENTION WAS ONLY TEMPORARY, CAUSED BY A CRISIS IN LIQUIDITY IN THE BANK, AND THAT THERE WAS NO THOUGHT OF NATIONALIZATION.

2. THE NEW DECREE-LAW, NO. 540-A/74, OF OCTOBER 12, STIPULATES THAT WHEN THE MINISTER OF FINANCE VERIFIES A SITUATION OF DISEQUILIBRIUM LIABLE TO AFFECT THE REGULAR FUNCTIONING OF A CREDIT INSTITUTION, WITH REPERCUSSIONS IN THE FINANCIAL MARKET, HE CAN EXEMPT IT TEMPORARILY FROM COMPLIANCE WITH DETERMINED LEGAL OBLIGATIONS AND EXTEND IT FINANCIAL SUPPORT. THIS ACTION IMPLIES SUSPENSION OF ONE OR MORE ADMINISTRATORS AND THEIR REPLACEMENT BY GOVERNMENT DELEGATES.

3. BIP IS PORTUGAL'S NEWEST BANK, CREATED IN 1972 BY MERGER OF TWO OTHER BANKS. IT WAS ALSO THE HIGHEST-FLYING BANK, RELYING ON ADVERTISING, PROMOTION, AND RISKIER INVESTMENTS. IT HAD MORE OF ITS INVESTMENTS IN STOCKS AND OTHER LONG-TERM ILLIQUID FORMS THAN ANY OTHER BANK, AND HAD BEEN PARTICULARLY HARD-HIT BY CLOSURE OF THE STOCK EXCHANGE SINCE THE 25TH OF APRIL, AND ITS CONSEQUENT INABILITY TO TURN INVESTMENTS INTO CASH. TOTAL CAPITAL OF BIP HAD RISEN FROM 320 MILLION ESCUDOS (ABOUT DOLS 12.4 MILLION) IN 1972 TO 800 MILLION ESCUDOS (DOLS 32 MILLION) AT THE END OF 1973. BIP WAS IN 2ND PLACE IN TOTAL CAPITAL AND RESERVES 2.065 BILLION ESCUDOS (DOLS 82.6 MILLION) AMONG PORTUGUESE BANKS, IN 4TH PLACE IN TOTAL FUNDS (2.237 BILLION ESCUDOS) (DOLS89.5 MILLION), AND 9TH PLACE IN DEPOSITS (5.397 BILLION), (DOLS 215.9 MILLION).

4. IT WAS ANNOUNCED THAT THE GOVERNMENT'S TECHNICAL AND FINANCIAL SUPPORT TO BIP WOULD BE EXTENDED, AS REQUIRED, TO ASSOCIATED COMPANIES OF THE "BIP GROUP." THE GROUP, CONTROLLED BY GEORGE DE BRITO, INCLUDES ABRIGADA (UNCLASSIFIED

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PAGE 03 LISBON 04604 240955Z

CERAMICS), BRISA (CIVIL CONSTRUCTION) CERARINHA (CERAMICS), BONANCA (INSURANCE), CERAMICA DO FOJO, INSULANA (SHIPPING), CARGAR (GLASS), PALMARES (REAL ESTATE), SOCIEDADE NACIONAL DE TIPOGRAFIA (OWNER OF NEWSPAPER "O SEculo"), SOCINFRA (REAL ESTATE), SOFAMAR (TRANSPORT), AND BOA VIAGEM (TRANSPORT). AT THE SAME TIME IT NAMED THE FORMER DIRECTORS OF BANCO DE ANGOLA AND BANCO NACIONAL ULTRA-MARINO AS BIP'S NEW ADMINISTRATORS, THE GOP NAMED A GOVERNMENT DELEGATE FOR BRISA.

5. THE GOVERNMENT CITED LACK OF INTERNATIONAL BANK SUPPORT, BAD MANAGEMENT, ILLIQUID INVESTMENTS, AND CLOSING OF THE STOCK EXCHANGE AS CONTRIBUTING TO BIP'S PROBLEMS. THE GOVERNMENT EMPHASIZED THAT BIP'S DIFFICULTIES BEGAN BEFORE THE 25TH OF APRIL. THE SITUATION REACHED A PEAK ON FRIDAY, OCTOBER 4, WHEN THE BANK OF PORTUGAL WAS NOTIFIED THAT BIP DID NOT HAVE THE CASH TO PAY THE DRAFTS AND CHECKS PRESENTED BY OTHER BANKS FOR PAYMENT. REPORTEDLY THE BANK HAD ONLY 7 MILLION ESCUDOS (DOLS 280,000) IN CASH ON HAND.

6. THE GOVERNMENT HAS GUARANTEED ALL OBLIGATIONS AND DEPOSITS OF THE BANK, SO THAT DESPITE THE RUMORS FLYING ABOUT BIP AS WELL AS ABOUT THE LIQUIDITY POSITION OF CERTAIN OTHER BANKS, THERE APPEARS TO HAVE BEEN NO EXCESSIVE SURGE OF WITHDRAWALS. AN OFFICIAL OF THE BANK OF PORTUGAL INFORMED EMBOFF THAT ALTHOUGH THE LIQUIDITY SQUEEZE IS ONE SHARED BY ALL BANKS CURRENTLY, NONE OF THE OTHER BANKS ARE AFFECTED TO ANY DEGREE CLOSE TO THAT OF BIP. THE LATTER IS AN ISOLATED CASE WHOSE PROBLEMS ARE LARGELY DUE TO ITS OVEREXPOSURE IN ILLIQUID INVESTMENTS.
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